

House File 2062 - Introduced

HOUSE FILE 2062

BY WILLS

A BILL FOR

1 An Act relating to individual and corporate income taxes by
2 providing an alternative base income tax at the election of
3 the taxpayer, and including effective date and applicability
4 provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 DIVISION I
2 ALTERNATIVE INCOME TAX — ELECTION
3 Section 1. NEW SECTION. 422.5B Tax imposed — alternative
4 base income tax.

5 1. For purposes of this section, “base income” means
6 taxable income as properly computed for federal income tax
7 purposes under section 63 of the Internal Revenue Code, with
8 the following adjustments:

9 a. Subtract to the extent included net capital gains income.

10 b. Subtract to the extent included dividend and interest
11 income.

12 c. Subtract to the extent included the amount of social
13 security benefits taxable under section 86 of the Internal
14 Revenue Code.

15 d. Subtract to the extent included the total amount of
16 governmental or other pension or retirement pay, including but
17 not limited to defined benefit or defined contribution plans,
18 annuities, individual retirement accounts, plans maintained or
19 contributed to by an employer, or maintained or contributed
20 by a self-employed person as an employer, and deferred
21 compensation plans or any earning attributable to the deferred
22 compensation plans.

23 2. Notwithstanding any other provision of law, a resident or
24 nonresident may, in lieu of the taxes imposed and calculated
25 under sections 422.5 and 422.5A, elect to be subject to state
26 income tax imposed and calculated pursuant to subsection 3.

27 3. A tax is imposed upon every resident and nonresident
28 of the state making the election under subsection 2 which tax
29 shall be levied, collected, and paid annually in an amount
30 equal to the net income of the resident or nonresident times
31 four percent.

32 4. Notwithstanding any other provision of law to the
33 contrary, a resident or nonresident making the election
34 under subsection 2 shall not be allowed any nonrefundable or
35 refundable credit allowed under this subchapter for the tax

1 year for which the election is made, except for withheld tax
2 and estimated tax paid under section 422.16.

3 Sec. 2. Section 422.13, Code 2022, is amended by adding the
4 following new subsection:

5 NEW SUBSECTION. 1A. a. Notwithstanding subsection 1,
6 a resident or nonresident of this state who is at least
7 sixty-five years old on December 31 of the tax year and who
8 elects to be subject to the alternative base income tax in
9 subsection 422.5B, shall not be required to make and file a
10 return if the taxpayer's base income does not exceed thirty-two
11 thousand dollars in the case of married persons filing jointly,
12 heads of household, and surviving spouses or twenty-four
13 thousand dollars in the case for all other taxpayers. For
14 purposes of this subsection, "*base income*" means the same as
15 defined in section 422.5B, except that it includes all amounts
16 of pensions or other retirement income received from any source
17 which is not taxable under section 422.5B, but does not include
18 military retirement pay described in section 422.7, subsections
19 31A and 31B.

20 b. A taxpayer who is at least sixty-five years old on
21 December 31 of the tax year and whose base income does not
22 exceed the applicable amounts in paragraph "a" and who does not
23 make and file a return pursuant to this section shall be deemed
24 to have made the election pursuant to section 422.5B.

25 Sec. 3. Section 422.13, subsection 2, Code 2022, is amended
26 to read as follows:

27 2. For purposes of determining the requirement for filing
28 a return under subsection 1 or 1A, the combined net income or
29 base income, as the case may be, of a husband and wife from
30 sources taxable under this subchapter shall be considered.

31 Sec. 4. NEW SECTION. 422.33A Corporate tax imposed —
32 alternative base income tax.

33 1. For purposes of this section, "*base income*" means the
34 taxable income as properly computed under the Internal Revenue
35 Code, with the following adjustments:

1 a. Subtract to the extent included interest and dividend
2 income.

3 b. Subtract to the extent included net capital gain income.

4 2. Notwithstanding any other provision of law, in lieu of
5 the rates of taxation imposed under section 422.33, subsections
6 1 and 1A, a corporation doing business in this state, or
7 deriving income from sources within this state, may elect to be
8 subject to the state corporate income tax imposed on the base
9 income received by the corporation during the income year at
10 a rate of four percent.

11 3. Notwithstanding any other provision of law to the
12 contrary, a resident or nonresident making the election
13 under subsection 1 shall not be allowed any nonrefundable or
14 refundable credit allowed under this subchapter for the tax
15 year for which the election is made.

16 DIVISION II

17 CONFORMING CHANGES

18 Sec. 5. Section 257.21, subsection 2, Code 2022, is amended
19 to read as follows:

20 2. The instructional support income surtax shall be imposed
21 on the state individual income tax for the calendar year during
22 which the school's budget year begins, or for a taxpayer's
23 fiscal year ending during the second half of that calendar year
24 and after the date the board adopts a resolution to participate
25 in the program or the first half of the succeeding calendar
26 year, and shall be imposed on all individuals residing in the
27 school district on the last day of the applicable tax year.
28 As used in [this section](#), "*state individual income tax*" means
29 the taxes computed under [section 422.5](#), less the amounts of
30 nonrefundable credits allowed under [chapter 422, subchapter II,](#)
31 or the tax computed under section 422.5B.

32 Sec. 6. Section 422.16, subsection 8, Code 2022, is amended
33 to read as follows:

34 8. An employer or withholding agent shall be liable for
35 the payment of the tax required to be deducted and withheld

1 or the amount actually deducted, whichever is greater, under
2 subsections 1 and 12 of [this section](#); and any amount deducted
3 and withheld as tax under [subsections 1 and 12 of this section](#)
4 during any calendar year upon the wages of any employee,
5 nonresident, or other person shall be allowed as a credit to
6 the employee, nonresident, or other person against the tax
7 imposed by [section 422.5](#), [or section 422.5B](#), irrespective of
8 whether or not such tax has been, or will be, paid over by the
9 employer or withholding agent to the department as provided by
10 this chapter.

11 Sec. 7. Section 422.21, subsection 1, Code 2022, is amended
12 to read as follows:

13 1. Returns shall be in the form the director prescribes,
14 and shall be filed with the department on or before the last
15 day of the fourth month after the expiration of the tax year.
16 However, cooperative associations as defined in section 6072(d)
17 of the Internal Revenue Code shall file their returns on or
18 before the fifteenth day of the ninth month following the
19 close of the taxable year and nonprofit corporations subject
20 to the unrelated business income tax imposed by section
21 422.33, subsection 1A, shall file their returns on or before
22 the fifteenth day of the fifth month following the close of
23 the taxable year. If, under the Internal Revenue Code, a
24 corporation is required to file a return covering a tax period
25 of less than twelve months, the state return shall be for the
26 same period and is due forty-five days after the due date of
27 the federal tax return, excluding any extension of time to
28 file. In case of sickness, absence, or other disability, or
29 if good cause exists, the director may allow further time for
30 filing returns. The director shall cause to be prepared blank
31 forms for the returns and shall cause them to be distributed
32 throughout the state and to be furnished upon application,
33 but failure to receive or secure the form does not relieve
34 the taxpayer from the obligation of making a return that is
35 required. The department may as far as consistent with the

1 Code draft income tax forms to conform to the income tax
2 forms of the internal revenue department of the United States
3 government. Each return by a taxpayer upon whom a tax is
4 imposed by [section 422.5](#) or [422.5B](#) shall show the county of the
5 residence of the taxpayer.

6 Sec. 8. Section 422.85, Code 2022, is amended to read as
7 follows:

8 **422.85 Imposition of estimated tax.**

9 A taxpayer subject to the tax imposed by [sections 422.33,](#)
10 [422.33A,](#) and [422.60](#) shall make payments of estimated tax for
11 the taxable year if the amount of tax payable, less credits,
12 can reasonably be expected to be more than one thousand
13 dollars for the taxable year. For purposes of [this subchapter,](#)
14 "*estimated tax*" means the amount which the taxpayer estimates
15 to be the tax due and payable under [subchapter III](#) or [V](#) of this
16 chapter for the taxable year.

17 Sec. 9. Section 422D.2, Code 2022, is amended to read as
18 follows:

19 **422D.2 Local income surtax.**

20 A county may impose by ordinance a local income surtax as
21 provided in [section 422D.1](#) at the rate set by the board of
22 supervisors, of up to one percent, on the state individual
23 income tax of each individual residing in the county at the
24 end of the individual's applicable tax year. However, the
25 cumulative total of the percents of income surtax imposed on
26 any taxpayer in the county shall not exceed twenty percent.
27 The reason for imposing the surtax and the amount needed, as
28 determined by the board of supervisors after recommendation of
29 the county emergency medical services system advisory council,
30 shall be set out on the ballot and in the ordinance. The
31 surtax rate shall be set to raise only the amount needed. For
32 purposes of [this section,](#) "*state individual income tax*" means
33 the tax computed under [section 422.5,](#) less the amounts of
34 nonrefundable credits allowed under [chapter 422, subchapter II,](#)
35 [or the tax computed under section 422.5B.](#)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

DIVISION III

EFFECTIVE DATE AND APPLICABILITY

Sec. 10. EFFECTIVE DATE. This Act takes effect January 1, 2023.

Sec. 11. APPLICABILITY. This Act applies to tax years beginning on or after January 1, 2023.

EXPLANATION

The inclusion of this explanation does not constitute agreement with the explanation's substance by the members of the general assembly.

This bill relates to individual and corporate income taxes by creating an alternative base income tax imposed at the election of the taxpayer.

Division I relates to the computation and imposition of an alternative base income tax.

In lieu of the regular individual net income tax computed under Code sections 422.5 and 422.5A, a resident or nonresident individual may elect to be subject to an alternative base income tax as provided in the bill.

The state income tax of a taxpayer making an election shall be an amount of tax equal to the taxpayer's base income times four percent. "Base income" is defined as taxable income as properly computed for federal income tax purposes under section 63 of the Internal Revenue Code, with the following adjustments: less interest and dividend income, less net capital gain income, and less social security benefits and retirement income. An electing taxpayer shall not be allowed any nonrefundable or refundable tax credit for the tax year for which the election is made, except the credits for withheld tax and estimated tax paid under Code section 422.16.

Taxpayers who are 65 years of age or older who elect the alternative base income tax are not required to file an income tax return if base income does not exceed \$32,000 for a married person filing jointly, a head of household, or a surviving spouse, or \$24,000 for all other persons. For purposes of calculating base income for the filing threshold, taxpayers are

H.F. 2062

1 required to add back any social security benefits or retirement
2 income otherwise exempt under the bill except for military
3 retirement pay. Taxpayers who meet these requirements and
4 who do not file a tax return are deemed to have elected to be
5 subject to the alternative base income tax.

6 In lieu of the regular corporate income tax computation in
7 Code section 422.33(1) and unrelated business income in Code
8 section 422.33(1A), the state income tax of a corporate income
9 taxpayer making an election shall be an amount of tax equal
10 to the taxpayer's base income times 4 percent. "Base income"
11 is defined as taxable income as properly computed for federal
12 income tax purposes under the Internal Revenue Code, with the
13 following adjustments: less interest and dividend income and
14 less net capital gain income. An electing corporate income
15 taxpayer shall not be allowed any nonrefundable or refundable
16 tax credit for the tax year for which the election is made.

17 Division II makes miscellaneous conforming changes.

18 Division III provides that the bill takes effect January 1,
19 2023, for tax years beginning on or after that date.